

VZCZCXRO5871
PP RUEHMA RUEHPA
DE RUEHUJA #2003/01 3060654
ZNR UUUUU ZZH
P 020654Z NOV 09
FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC PRIORITY 7387
INFO RUEHOS/AMCONSUL LAGOS PRIORITY 2210
RUEHBJ/AMEMBASSY BEIJING 0051
RUEHGH/AMCONSUL SHANGHAI 0001
RUEHSH/AMCONSUL SHENYANG 0003
RUEHCN/AMCONSUL CHENGDU 0001
RUEHGZ/AMCONSUL GUANGZHOU 0001
RUEHJO/AMCONSUL JOHANNESBURG 0109
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 03 ABUJA 002003

SENSITIVE
SIPDIS

DEPT PASS USTR-AGAMA AND EXIM- JRICHTER, ANGIUONI
DEPT PASS TO USTDA-PAUL MARIN
JOHANNESBURG FOR NAGY
TREASURY FOR IERONIMO, BARCAN, SOLOMON AND RITTERHOFF
DOC FOR 3317/ITA/OA/KBURRESS AND 3130/USFC/OIO/ANESA/DHARRIS

E.O. 12958:N/A
TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [PGOV](#) [NI](#)
SUBJECT: CHINA'S GROWING PRESENCE IN NIGERIA

REF: A. LAGOS 271

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SENSITIVE BUT UNCLASSIFIED-HANDLE ACCORDINGLY

SUMMARY

1. (SBU) China's presence in Nigeria is growing. There are 200 to 300 Chinese businesses in the country while the bilateral trade between the two countries is estimated at \$7 billion for 2009. China's dependence on oil is encouraging its oil companies, such as CNOOC and Sinopec, to take an interest in Nigeria's oil fields. Chinese companies are investing in the non-oil sector but the investments are minimal when compared to the oil sector investments. Nigerians are interested in Chinese investments but not in the Chinese labor that most Chinese companies bring with them. The Chinese population in Nigeria is estimated at 20,000-50,000. END SUMMARY.

CHINESE COMPANIES

2. (SBU) Economic Counselor and Banking and Finance Officer met with Chinese Economic and Commercial Counselor and Economic Officer on October 15 to discuss the business environment in Nigeria. The Economic and Commercial Office's eight officers work on issues such as trade, investment, economic assistance, economic cooperation and business disputes. The Chinese Economic and Commercial Counselor noted that there are 200 to 300 Chinese enterprises in Nigeria, most of which are small private enterprises owned by one or two people. Only 50 to 60 enterprises are medium or large, and are under supervision of the Chinese Economic and Commercial Office.

TRADE REACHED \$7 BILLION IN 2009

3. (U) The People's Republic of China and the Federal Republic of Nigeria established diplomatic relations on February 10, 1971. Bilateral trade was \$856 million in 2000, \$3 billion in 2006, and \$7

billion in 2009. China imports petroleum, timber and cotton, and exports light industrial mechanical and electrical products. China sees Nigeria as a key market in Africa for its cheap goods. According to Chinese officials quoted in the local press, Nigeria is China's fourth largest trading partner in Africa.

CHINA'S DEMAND FOR OIL IS GROWING

¶4. (SBU) Former Nigerian President Olusegun Obasanjo (1999-2007) encouraged Chinese state companies to acquire oil blocks in Nigeria in return for Chinese commitments to invest in infrastructure projects, but the scheme eventually failed because of no viable mechanism to implement and enforce deals. No Chinese-led infrastructure project was actually executed, including the widely-discussed proposed building of a Lagos-Kano railway.

¶5. (SBU) China's high dependence on imported oil has encouraged its state-owned oil companies to explore overseas oil fields. Nigeria's crude oil production was 1.8 million barrels per day in September 2009, but potential production could be as much as three million barrels per day. The Chinese oil companies National Offshore Oil Corporation (CNOOC) and Petroleum and Chemical Corporation (Sinopec) QCorporation (CNOOC) and Petroleum and Chemical Corporation (Sinopec) operate in Nigeria and are looking to expand their operations.

CNOOC

¶6. (SBU) CNOOC entered Nigeria in 2006 when it acquired a 45 percent interest in a major oil field, OML130, for \$2.2 billion. Production began in March 2009. CNOOC also purchased a 35 percent interest in OPL299 for \$60 million. According to local press

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reports and industry speculation, it seeks to acquire six billion barrels of oil in 23 blocks for \$30 billion, or the equivalent of one in every six barrels of Nigerian proven reserves. Its bid for oil blocks could put the Chinese into competition with Shell, ExxonMobil, Chevron, Total, and Agip, the current operators of these blocks.

SINOPEC

¶7. (SBU) Sinopec purchased existing producer Addax Petroleum, a Swiss company, for \$7.2 billion in June 2009. Previous Chinese activity in Nigerian exploration and production ventures took the form of minority investments in fields or oil blocks operated by other companies or in the proposed oil-for-infrastructure deals (Reftel A).

TELECOMMUNICATIONS

¶8. (SBU) Chinese companies are making small investments in the non-oil sector, mostly in the information and communications technology (ICT) sector. The Chinese Economic Counselor noted in the October 15 meeting that China's presence in telecommunications is largely in equipment and supply because the local telecommunications sector is dominated by South African companies.

¶9. (SBU) Huawei, China's largest telecoms-equipment company, signed an agreement with the Ministry of Communications for the introduction of new ICT in Nigeria. Huawei also supplies fiber optic cables and modems for Internet service.

¶10. (SBU) HIS Nigeria Plc, a leading telecom infrastructure provider in Nigeria, uses Chinese companies for its supply of towers, batteries, gensets and fences. ICT has great potential in Nigeria, and China supplies a good portion of the equipment needed to make ICT operations run.

DEVELOPMENT OF THE LEKKI FREE TRADE ZONE

¶11. (SBU) Chinese firms signed an agreement with the Lagos state government to build the multi-million-dollar Lekki Free Trade Zone (FTZ). The Jiangling Economic Development Zone of China is the primary developer of Lekki FTZ whose ultimate objective is a new model city and to become a mega industrial, commercial, financial, tourism and recreational hub. Chinese press reports highlight the Chinese government's hopes to use Lekki FTZ as a major market for promoting Chinese goods.

¶12. (SBU) Nigerians appear to be interested in Chinese investment but are wary of it at the same time. International press reports claim that some Nigerian officials are concerned about the Chinese practice of importing Chinese workers who could exacerbate local resentment, particularly in the Niger Delta where there are major grievances over the lack of employment opportunities. Nigerians are adamant about using local labor and not bringing large numbers of Chinese laborers into the country. This is evident in the development of Lekki FTZ, which has Chinese involvement but without large numbers of Chinese workers.

THE IMPACT OF CHINESE TEXTILE IMPORTS

¶13. (SBU) Lack of power and cheap Chinese textile imports have devastated the local textile industry. According to the local press, more than 65 textile mills have closed in Nigeria and more than 150,000 Nigerian textile workers have lost their jobs over the past ten years. More than one million other Nigerians, such as traders and cotton farmers, have also suffered from the down-sizing of the textile industry.

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¶14. (SBU) The Chinese are adept at making counterfeit "Nigerian" fabric. Virtually all of the 10,000 vendors at the major market in Onitsha source their goods from China. Cheap Chinese products and lack of local transportation and power infrastructure make it cheaper to be a trader than a manufacturer in Nigeria.

THE LOCAL CHINESE POPULATION

¶15. (SBU) There are an estimated 20,000-50,000 Chinese living in Nigeria, including 20,000 at "Chinatown" in mainland Lagos. Most Chinese are located in the larger cities, such as Lagos, Abuja and Kano. The number of cultural and tourist exchanges, such as the visiting Chinese dance troupe which performed in Abuja for PRC National Day on September 30, may continue to increase with the growth of Chinese business interests in Nigeria. China's Southern Airlines flies directly to Lagos three times a week, with a fueling stop in Dubai, and the airline would reportedly like to increase the frequency of these flights.

COMMENT

¶16. (SBU) China's presence in Nigeria will continue to grow in both the oil and non-oil sectors. However, China's bids for existing oil blocks, potential joint ventures with international oil companies, and purchases of oil will dominate China's involvement in Nigeria for the foreseeable future. Elsewhere, China may continue to sign ambitious Memorandums of Understanding, such as the failed oil-for-infrastructure agreements, where concrete results will be difficult to achieve.

¶17. (U) The Embassy coordinated this telegram with ConGen Lagos.

